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Anonymous

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INFORMATION,



The Research Department in the Executive Office is a storehouse of

Think of "research" and you get the impression of people experimenting with new and far-out concepts, people sitting in ivory towers, spinning the web of accounting ten years hence.

Haskins & Sells has a good share of pure research that has given birth to new techniques like Auditape and our statistical sampling methods. "But in our Executive Office Research Department," says Hal Robinson, who is partner in charge of it, "the plain fact is that our number one function is to respond to requests for assistance from the practice offices. We had over 500 requests in 1966—and there was no relation to the ivory tower in any of them. These requests demand consideration right now, because our findings will be used immediately to answer questions posed by clients."

As a practical matter, a time limit of one week has been set for answering all but the most exhaustive requests so as to assure orderly handling and still allow priority handling for particularly urgent queries.

What the offices ask the Research Department for is background information that they don't have the time or facilities to gather themselves. Most of this information directly concerns accounting matters. But often enough the relationship is startlingly oblique, with questions like "What was the quoted market for Company A's stock on December 31, 1899?" or "Can you find us a retail price level index for the southwest Texas area for the years 1959 to 1965?" or "Please send examples of 'phantom stock plans.'"

Sometimes this primary function of the Research Department is called "answering practice office questions." But calling it that can be misleading if it makes you think the offices ask the point-blank question "How should we account for the following transaction?" In most cases the offices will answer that question themselves—after they've been supplied the background information.

Of course, a good number of accounting and auditing

questions *do* get answered in consultation with people in the Executive Office. These are questions where the business transactions involved present quite new twists, and thus the answers need exploration or development of Firm policy. They will usually be directed to Emmett Harrington, who has primary responsibility for technical aspects of our practice, or to Oscar Gellein for accounting questions, to Ken Stringer for auditing, or to Cy Youngdahl if an SEC filing is involved.

In many cases these questions come back to the Research Department for background information. "Then," says John Tillotson, principal who's been fielding these requests for seven years, "what do you do? Do you go in—to Oscar Gellein, for example—and say, 'Here's all the information we've gathered for you, but, of course, we haven't tried to draw any conclusions from it'? No we don't. I don't think anyone could search out all the pertinent facts without also asking himself what the answer is." Of course, whoever referred the question recognizes this, so that he spends a good deal of time with John or others in the Research Department probing and discussing the question.

Almost any time you walk down the corridor that stretches down the long back wing on the 23rd floor of Two Broadway, you will see the occupants of several of the offices hanging on to their telephones, talking to someone in Boston, San Juan, Seattle, Honolulu, or some place in between. "We prefer written communiques in the first instance," says Hal Robinson. "For one thing, it makes for efficiency in getting the question to the right party in the E.O. For another, it forces the person making the request to think through just what he wants to know, and not infrequently it turns out to be different from what he first thought it was. When that doesn't happen till after the question gets to us, time is wasted."

Nevertheless, most matters do get discussed on the telephone at one time or another. Next to sitting down

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information on accounting—and if it doesn't have the data you need, chances are it will find it.

together, there seems to be nothing like the telephone for getting that eyeball-to-eyeball understanding. "It helps in sorting out the facts and their significances," says John Tillotson. "This is particularly so in transfer-of-interests engagements [most of which are cleared through the Research Department]. The other day I was talking with one of the offices about an acquisition where the office had completed a 'businessman's review.' Something made me ask further about a liability that apparently would come into existence when the acquisition was completed. Our office checked back into it and the lawyers decided the liability *already* existed; if it wasn't recorded, the seller's representations would be wrong."

The Research Department has recognized its commitment to service since it became a separately constituted group in 1956. Jule Phoenix, who ran it from 1961 until his transfer to Miami last year, has talked about it at annual meetings of principals and of senior accountants in these terms: "The Research Department is designed primarily to help you serve your clients better. In a sense, *you* are *our* clients, and we want you to call on us whenever you think it would be helpful for you to do so. Don't hesitate to ask for information because you are doubtful of how effective the results will be. In this area we're never sure of what we're going to come up with. But it's usually worth a try."

This view of the department's work fits in with the dictionary definition of research as "laborious, careful inquiry or investigation." The department is all tooled up for that. It has:

- A subject file—with an index system—housing copies of documents that treat every accounting, auditing and reporting matter that comes to the department's attention. (The sources for this file include published reports of corporate and other organizations, our clients' and others'—over 3,000 every year; the "blue-cover" reports of clients that don't publish their financial statements;

prospectuses, proxy statements, and stock-exchange-listing applications; newspaper and magazine clippings noted by the library scanners, by others in the Research Department and elsewhere in the E.O., and, to a lesser extent, sent in from the practice offices; records of all the questions the department has processed; the minutes of general and technical meetings of Executive Office partners; records of meetings of AICPA committees on which partners of the Firm are members.)

- A separate card index of all matters of unusual or current interest in published or "blue-cover" reports.

- The E. O. library, which each year acquires all the AICPA publications, a large sampling of all other accounting and accounting-related publications and reference services, and some 325 periodical publications. Jim Smith, our librarian, has an informal association with accounting librarians in the city, including those with several of the other accounting firms and with universities, and this facilitates exchange of literature.

While the reason for these files' existence is to get information out of them, one of the big jobs of the Research Department is to get the information *in*. For example: reading and culling from annual published reports. Dick Rikert does this, helped during spring and summer by accountants borrowed from New York and Newark. Of the 3,000 reports reviewed, about 2,700 get read at a rate of twenty or thirty a day. The items of interest that are excerpted from them are entered on index cards after review with Jack Fisch, principal who transferred from the Newark office in 1966.

The other 300 reports take longer. Copies of each of these reports are sent to all the U.S. offices with descriptions of items of note glued to their front covers. Dick averages about an hour apiece on these for reading the president's letter, scanning the financial review, checking through the financial statements, notes and accountants' opinion, and comparing each report with the previous year's—the latter step being to check for such

things as reclassifications and matters disclosed in one year but not in the other. Then he and Jack must make sure that the items they draw attention to do indeed demonstrate unique accounting or reporting procedures and that they have been interpreted correctly. Dick says the offices are quick to challenge these interpretations if they disagree, "but that only happens once in a while."

Last summer, Vic Marchese transferred from Ft. Lauderdale to the Research Department and now he's using these reports and indices to supply information the offices request. We mentioned to him the point expressed in the public press of late, that accountants are always looking to see "how someone else did it," and that they will OK any accounting treatment so long as they can find a precedent. We suggested that perhaps our interest in all these annual reports could lend credence to this view. Said Vic: "Maybe some people would think that, but they would be way off base. Just because we look at how other companies have accounted for various situations doesn't mean we don't make up our own minds. After all, this is the way accounting thought develops. Accounting is a way of getting information across to people, and we're always trying to figure out the most effective ways of doing it. We feel we have a lot of good ideas ourselves, but we don't necessarily have a monopoly on them. If a client has an unusual situation and has his own ideas on how to account for it, we would be on weak ground to say he couldn't do it without looking to see whether somebody else already had. That doesn't mean we'd accept the accounting treatment if we thought it wasn't appropriate. In fact, we often can use other companies' reports to show clients how their situations are different, and so call for different accounting."

Bob Gummer, who transferred from Pittsburgh in 1965, joined in to say, "Another reason for looking to precedent is to see what we ourselves have done before. If it turned out that the circumstances were indeed similar, we'd be in a pretty poor position to come up with two different accounting treatments. Also, the way a transaction is handled sometimes depends on the in-

dustry. Trends in accounting thought come through more clearly when you look at reports of companies all in the same industry."

Bob added another thought: "What many people outside accounting don't realize is that there can be so many alternative interpretations you can apply to one set of facts and circumstances. All you have to do is to look at some of the equipment-leasing agreements that are drawn up nowadays to see how tough it can be to get agreement on the significance of the facts. That's one thing we learn very quickly in Research."

These comments of Vic's and Bob's bear out a great advantage Hal Robinson sees for his department: It's a training ground. This is not a novel viewpoint, since any administrator worth his salt makes the same claim, but there's no question that the opportunities abound in Research. A man learns to see things from a Firm-wide viewpoint; normally, he gets close to more unusual accounting problems in a few months than most people out on engagements see in several years; he gets to know a great number of people in the Firm, whether by telephone, letter, or personal contact when they visit the E.O.; he sees and participates in the bringing together of accounting thought that moves the profession forward.

This concept accounts in part for the policy of bringing people, usually senior accountants and principals, into the Research Department for periods of two or three years. Besides working on requests from the offices and on special projects, the Research Department performs a sizable number of recurring services, such as: putting together statistics from the Fortune 500 survey; keeping our list of clients by industry up to date; scanning engagement memorandums for unusual services; indexing matters reported at various technical meetings of the Firm; acting as a clearing house for information on companies that want to sell their businesses or acquire others; keeping tabs on transfer-of-interests engagements; and furnishing our representative on the Accounting Principles Board, currently Mr. Queenan, with technical assistance on matters under consideration by the Board.

The person in the Research Department assigned the last-named responsibility comes into close touch with a wide range of accounting subjects, as a look at recent APB opinions and research studies will clearly show. The APB is currently meeting about six times a year, but its work progresses between meetings through massive exchanges of correspondence, much of which requires determining the Firm's position on accounting matters and committing it to writing. It is the job of the department appointee to get these things done.

Bill Bosse has had this assignment since his transfer from Minneapolis. A great deal of Bill's time has been spent on the pension costs opinion. Mr. Queenan chaired the subcommittee that guided that opinion from draft to draft and to final publication in November 1966. The subject was one of widespread interest, and when the exposure draft of the opinion was circulated, over 300 letters of comment were received, most of them written by experienced company officials. Bill went through them all with a fine tooth comb to make sure the opinion was written with understanding of every possible point that had been made.

With all this work to be done, it seems surprising at first that the Research Department as such came into being only a dozen years ago. Its beginning and expansion have been a parallel development of the very great growth of the Firm that started after World War II. In a sense, of course, there had always been a Research Department—one that operated informally, and in which the files were stored under the hats of such men as Wildman, Bell, Powell and Shifflett. But a formal central storehouse of technical information and Firm policy became a necessity with the rapid spreading of our offices, and the truly remarkable proliferation of corporate business and financial practices, regulatory concepts and agencies, and distribution of stock ownership.

Virginia Moesmer, who has been associated with the department longer than anybody, can remember its gradual emergence in 1952 to 1956 under Oscar Gellein and then its separate establishment under Bill Graham, followed by Stanley Goodsill. Miss Moesmer's job is to

catalog, file and maintain all reports, including published reports, unpublished reports (which come in at the rate of 20,000 a year), prospectuses, proxy statements and other filings. She has an accurate register of the growth of the department as she watches the expansion of her files. "We always seem to be looking for more kinds of material to put in them. On the other hand, we keep some things in current files for shorter periods: unpublished reports, for instance, which we now send to storage after only two years instead of three." But, of course, we still keep a record of all our reports. Recently, the New York office asked for Isbrandtsen Lines' reports for 1919.

In the area of pure research, Clayton Bullock works as an "affiliate" of the department. Half of his assignment is to think about problems that are down the road a piece. He mentioned two areas he's currently working on: "One is the extent to which some of our accounting principles designed for annual application really can be useful for interim statements. Another is whether present theories of accounting for property and depreciation may not be all wrong. Even this work, though, has to be looked at from a practical viewpoint. I spent some time recently on a project—on insurance company accounting—but we abandoned it because it looked as though the answers we'd come up with would not be in the realm of acceptability within the relatively near future.

"In my view," he continued, "research is a very fluid thing in this office and many people get in on it one way or another. No matter who is working on a problem, he will probably be looking to the Research Department for help."

With this evidence of Research Department involvement in real research activities we went back to see Hal Robinson. As we started to quiz him about it, the telephone rang.

"Excuse me," said Hal, and he picked up the receiver and listened. You could sense his anticipation. "Hold on," he said, then, turning away from the phone, asked us, "Can we continue this later? I have Denver on the wire and it looks as if it will take a little time. . . ."

Opportunities abound in Research. A man learns to see things from a



-wide viewpoint.